



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2011 Biennium

<b>Bill #</b>	SB0138	<b>Title:</b>	Insurance Commissioner review of property insurers for fire protection purposes
<b>Primary Sponsor:</b>	Hansen, Ken (Kim)	<b>Status:</b>	As Introduced

- |   |  |  |
|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact     | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns   |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts           | <input type="checkbox"/> Dedicated Revenue Form Attached |

### FISCAL SUMMARY

	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
<b>Expenditures:</b>				
State Special Revenue	\$327,601	\$322,401	\$330,467	\$338,734
<b>Revenue:</b>				
General Fund	(\$11,077)	(\$46,306)	(\$47,413)	(\$48,409)
State Special Revenue	(\$2,456)	(\$10,268)	(\$10,514)	(\$10,734)
<b>Net Impact-General Fund Balance</b>	<u>(\$11,077)</u>	<u>(\$46,306)</u>	<u>(\$47,413)</u>	<u>(\$48,409)</u>

### Description of fiscal impact:

SB 138 establishes an education and training program to assist homeowners in protecting their property from wildland fire and provides for insurance premium discounts resulting from fire hazard mitigation. The expenditure impact of this bill will be funded with state special revenue and will have a direct impact upon fees paid by the insurance industry. Revenue impacts are the result of premium discounts reducing premium taxes paid.

### FISCAL ANALYSIS

#### Assumptions:

#### **State Auditor's Office (SAO)**

#### Expenditures

1. The bill becomes effective October 1, 2009. Personal services and related FTE operating expenses are calculated at 75% for FY 2010 to reflect the effective date of the bill.
2. 340,000 homeowners and 37,000 commercial owners will be educated and homes in protection classes 9 and 10 will be inspected.
3. SAO will hire 0.50 FTE, compliance specialist, for the education program. FY 2010 salaries and benefits will be \$21,098 and operating costs will be \$213,631 for 0.75 of a fiscal year. Operating costs include the development of homeowners' education and training program brochures costing \$200,000 for each year for four years to produce and send the brochures to all Montana property owners.

4. The SAO will hire 1.00 FTE, inspector, for the inspection program. FY 2010 salaries and benefits will be \$36,248 and operating costs will be \$24,725 for 0.75 of a fiscal year.
5. 2.5% inflation is applied for FY 2012 and FY 2013 expenses.

Revenues

6. All fire insurance premiums would be eligible for a discount.
7. Approximately 10% of eligible property owners will take the initiative to reduce fire hazards.
8. Insurance companies will offer a 5% discount.
9. The insurance premium tax rate is 2.75% of all premiums written and the fire and casualty insurance surtax rate is an additional 2.25% on fire and casualty insurance premiums.
10. Premium taxes for calendar year activity is payable coincident with the report filed by March 1 year following the premium activity. For FY 2010 only one calendar quarter would receive the discount.
11. Actual homeowner multi-peril insurance premiums for FY 2007 were \$180.2 million and fire insurance premiums were \$20.5 million.
12. Premiums are projected using premium tax growth before offsets for FY 2008 and FY 2009. HJR2 growth rates are used for FY 2010 and FY 2011; OBPP estimate premium tax growth rates are used for FY 2012 and FY 2013.
13. The revenue impact of assumptions 6 through 12 are presented in the following table:

Potential Impact SB 138 Fire Insurance Discounts on Insurance Premium Tax Collections							
	Actual FY 2007	Estimate FY 2008	Estimate FY 2009	Estimate FY 2010	Estimate FY 2011	Estimate FY 2012	Estimate FY 2013
<b>Total Premiums</b>	<b>\$200,700,000</b>	<b>\$209,129,400</b>	<b>\$228,578,434</b>	<b>\$216,532,351</b>	<b>\$226,297,960</b>	<b>\$231,706,481</b>	<b>\$236,572,317</b>
Premium Growth		4.2%	9.3%	-5.3%	4.5%	2.4%	2.1%
Premiums Eligible for Discount (25% of CY 2009)				<b>\$54,133,088</b>			
<b>Insurance Premium Tax</b>							
Tax rate				2.75%	2.75%	2.75%	2.75%
Discount				5.00%	5.00%	5.00%	5.00%
Participation				10.00%	10.00%	10.00%	10.00%
Total Tax				7,443	31,116	31,860	32,529
<b>Distribution</b>							
<b>SSR I-155 (1/3)</b>				<b>\$2,456</b>	<b>\$10,268</b>	<b>\$10,514</b>	<b>\$10,734</b>
<b>General Fund (2/3)</b>				<b>\$4,987</b>	<b>\$20,848</b>	<b>\$21,346</b>	<b>\$21,794</b>
<b>Fire Marshall Tax</b>							
Tax rate				2.25%	2.25%	2.25%	2.25%
Discount				5.00%	5.00%	5.00%	5.00%
Participation				10.00%	10.00%	10.00%	10.00%
General Fund				<b>\$6,089.97</b>	<b>\$25,458.52</b>	<b>\$26,066.98</b>	<b>\$26,614.39</b>
<b>Total</b>							
General Fund				<b>\$ 11,077</b>	<b>\$ 46,306</b>	<b>\$ 47,413</b>	<b>\$ 48,409</b>
SSR				<b>\$ 2,456</b>	<b>\$ 10,268</b>	<b>\$ 10,514</b>	<b>\$ 10,734</b>

	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
<b><u>Fiscal Impact:</u></b>				
FTE	1.13	1.50	1.50	1.50
<b><u>Expenditures:</u></b>				
Personal Services	\$57,346	\$76,461	\$78,373	\$80,334
Operating Expenses	\$213,631	\$245,940	\$252,094	\$258,400
<b>TOTAL Expenditures</b>	<u>\$270,977</u>	<u>\$322,401</u>	<u>\$330,467</u>	<u>\$338,734</u>
<b><u>Funding of Expenditures:</u></b>				
State Special Revenue (02)	\$270,977	\$322,401	\$330,467	\$338,734
<b>TOTAL Funding of Exp.</b>	<u>\$270,977</u>	<u>\$322,401</u>	<u>\$330,467</u>	<u>\$338,734</u>
<b><u>Revenues:</u></b>				
General Fund (01)	(\$11,077)	(\$46,306)	(\$47,413)	(\$48,409)
State Special Revenue (02)	(\$2,456)	(\$10,268)	(\$10,514)	(\$10,734)
<b>TOTAL Revenues</b>	<u>(\$13,533)</u>	<u>(\$56,574)</u>	<u>(\$57,927)</u>	<u>(\$59,143)</u>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	(\$11,077)	(\$46,306)	(\$47,413)	(\$48,409)
State Special Revenue (02)	(\$273,433)	(\$332,669)	(\$340,981)	(\$349,468)

**Technical Notes:**

1. 33-1-311(1), MCA, describes the powers and duties of the Commissioner of Insurance in broad terms. Items specific to one line of insurance such as homeowners insurance are usually codified in the applicable chapter. In this case, homeowners insurance is addressed in Title 33, Chapter 24, MCA, and property and casualty rates are addressed in Title 33, Chapter 16 part 2, MCA.
2. The bill lists homeowners insurance in 33-1-311(7), MCA, but lists property in 33-24-102(2), MCA. This should specify homeowners and fire.
3. The approval by the commissioner of discounts should be moved to Chapter 16, Part 2, MCA, and the commissioner needs to be given the authority to approve rate discounts.

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*Sponsor's Initials*\_\_\_\_\_  
*Date*\_\_\_\_\_  
*Budget Director's Initials*\_\_\_\_\_  
*Date*